Mark Scheme (Results)
November 2009

IGCSE

IGCSE Accounting (4305) Paper 01

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November 2009

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Section A

Question Number	Answer	Mark
1(a)	A	**(1)**

Question Number	Answer	Mark
1(b)	B	**(1)**

Question Number	Answer	Mark
1(c)	B	**(1)**

Question Number	Answer	Mark
1(d)	A	**(1)**

Question Number	Answer	Mark
1(e)	B	**(1)**

Question Number	Answer	Mark
1(f)	D	**(1)**

Question Number	Answer	Mark
1(g)	C	**(1)**

Question Number	Answer	Mark
1(h)	D	**(1)**

Question Number	Answer	Mark
1(i)	A	**(1)**

Question Number	Answer	Mark
1(j)	B	**(1)**

(Total 10 marks)

Question Number	Answer	Mark
2(a)+(b)	**(a)**	

Nominal Ledger

Capital

Date	Narrative	£	Date	Narrative	£
			Oct 1	Bank	35 000*
			Oct 1	Shop fittings	15 000*

Drawings

Date	Narrative	£	Date	Narrative	£
Oct 26	Cash Book	1250*			

Purchases

Date	Narrative	£	Date	Narrative	£
Oct 31	Purchases Book	7500*			

Rent

Date	Narrative	£	Date	Narrative	£
Oct 3	Cash Book	750*			

Returns Outwards

Date	Narrative	£	Date	Narrative	£
			Oct 31	Returns Outwards Book	900*

Sales

Date	Narrative	£	Date	Narrative	£
			Oct 30	Cash Book	4500**

Shop Fittings

Date	Narrative	£	Date	Narrative	£
Oct 1	Capital	15 000*			

VAT

Date	Narrative	£	Date	Narrative	£
Oct 31	Purchases Book	750*	Oct 30	Cash Book	450**
			Oct 31	Purchase Returns Book	90*
			Oct 31	Balance c/d	210* C
		<u>750</u>			**<u>750</u>**
Nov 1	Balance b/d	210*			

Wages

Date	Narrative	£	Date	Narrative	£
Oct 25	Cash Book	850*			

Creditors (Purchases) Ledger

Shah Software

Date	Narrative	£	Date	Narrative	£
Oct 20	Cash Book	3960*	Oct 1	Purchases Book	4 950*
Oct 21	Returns Outwards Book	990*			

(9+1)
(10)

Kormi Gaming

Date	Narrative	£	Date	Narrative	£
			Oct 8	Purchases Book	3 300*

(b) Balance the VAT account showing clearly the balance carried down at 31 October 2009 and the balance brought down on 1 November 2009.

20 * = 10

Question Number	Answer	Mark
2(c)	Bhopesh is owed** the sum of £210** by the government**	**(3)**

Question Number	Answer	Mark
2(d)	**Bhopesh Patel** **Trading and profit and loss account** **For month ended 31 October 2009**	**(6)**

	£	£	£
Sales			4 500*
Cost of sales			
Purchases	7 500*		
Returns outwards	900*		
		6600*	
Closing stock		4 000*	
Cost of goods sold			2600*
Gross Profit			**1 900***
Overheads			
Rent		750*	
Wages		850*	
			1 600
Net Profit			**300***
+ 2 x * for no extraneous items			

12 x * = 6 marks

Question	Answer	Mark

Number		
2(e)	2 x ** for any suitable use. e.g. payroll, stock control, HR records, preparation of final accounts etc. **4 x * = 2 marks**	**(2)**

Question Number	Answer	Mark
2(f)	**Advantages** 2 x ** for any suitable advantage. e.g. speed, accuracy, legibility (1 x * for identification and 1 x * for development) **Disadvantages** 2 x ** for any suitable disadvantage. e.g. cost, loss of data, (1 x * for identification and 1 x * for development) **8 x * = 4 marks**	**(4)**

(Total 25 Marks)

Question Number	Answer	Mark
3(a)	**The Journal** (table below) **8 x * = 4 marks**	**(4)**

The Journal

Date	**Narrative**	**Folio**	**Debit (£)**	**Credit (£)**
June 30	Bad debts*		200	
	Debtors control *			200
	Being the writing off of bad debts at the year end*			
June 30	Profit and loss*		250*	
	Provision for doubtful debts*			250*
	Being the increase in provision for doubtful debts*			

8 x * = 4 marks

Question Number	Answer	Mark
3(b)	**Bad debts account** (table below)	

Bad debts account

Date	Narrative	£	Date	Narrative	£
June 1	Balance b/f	1	June 30	Profit and loss	1

		322**			522**
June 30	Debtors control	200**			
		1 522			**1 522**

6 x * = 3 marks

Provision for doubtful debts account

Date	Narrative	£	Date	Narrative	£
June 30	Balance c/d	2 150*	July 1	Balance b/f	1 900**
			June 30	Profit and loss	250**
		2 150			**2 150**
			July 1	Balance b/d	2 150*

6 x * = 3 marks

(6)

Question Number	Answer	Mark
3(c)	Draft net profit 25421* Bad debts 200* Increase in provision for doubtful debts 250* Revised net profit **24971*** **4 x * = 2 marks**	**(2)**

Question Number	Answer	Mark
3(d)		**(2)**

John Blake
Balance sheet extract
As at 30 June 2009

Current Assets*		
Debtors	43000* C	
Provision for doubtful debts	2150*	
		40850* OF

4 x * = 2 marks

Question Number	Answer	Mark
3(e)	**** for explanation of the prudence concept ****** for relevance to bad debts and the provision for doubtful	

	debts ** for arguments against the Prudence Concept **Sample Answer** The prudence concept requires that final accounts should always report a conservative figure for profit* or the valuation of assets*. To this end profits are not to be anticipated* and all known liabilities should be provided for.* The provision for doubtful debts is a good example of the application of this concept where it is known that a certain percentage of debtors will eventually need to be written off as bad debts**. By adjusting this years profit and loss account by the anticipated amount* we will not be overstating* profit and by including the provision on the balance sheet we will show a more accurate figure for debtors thus not overstating* the value of the assets of the business.* **10 x * = 5 marks**	**(5)**

Question Number	Answer	Mark
3(f)	** for any 2 relevant advantages e.g. additional capital, share the risk, share the workload, new ideas etc. ** for any 2 relevant disadvantages e.g. receiving less profit, sharing business decisions etc. **4 x * = 2 marks**	**(2)**

Question Number	Answer	Mark
3(g)	* for including relevance to the Partnership Act 1890 + * for explaining the need for a partnership agreement ** for explanantion of the nature and function of capital and current accounts ** for explanation of the profit and loss appropriation account ** for explanation of the effect on the balance sheet **Sample Answer** If John was to form a partnership with his friend he would need to either follow the rules set out in the Partnership Act 1890* or set	

	up their own partnership agreement.* They would be required to have a fixed capital account each where their initial investment would be entered* and a current account each which is treated as a working account. All profits, drawings etc. are entered in the current account.* In addition to the profit and loss account they would be required to produce an appropriation account* where the agreed share of profits etc would be shown.* On the balance sheet* the only adjustment would be in the 'financed by' section where* the balances of both the current and capital accounts would be shown. **8 x * = 4 marks**	**(4)**

(Total 25 marks)

Section B

Question Number	Answer	Mark
4(a)(i)-(iii)	**(i)** Stating clearly the formula used calculate the gross profit margin for the year ended 30 September 2009. Formula **Gross profit*/Turnover* x 100** Gross profit margin **675 **/900* x 100 = 75%*** **(ii)** Stating clearly the formula used calculate the net profit margin for the year ended 30 September 2009. Formula **Net profit*/Turnover* x 100** Net profit margin **270**/900* x 100 = 30%*** **(iii)** Stating clearly the formula used calculate the return on capital employed for the year ended 30 September 2009. Formula **Net profit*/capital employed *x 100** Return on capital employed **270**/1500* x 100 = 18%*** **x * = 9 Marks**	**(9)**

Question Number	Answer	Mark
4(b)	**Tatiana Micallef** **Trading and profit and loss account** **Year ending 30 September 2010**	

	£000	£000
Turnover		1350***
Cost of Sales		540***
Gross Profit		810
Variable Expenses (270* + 50*)	320	
Fixed Expenses	220*	
		540
Net Profit		**<u>270*</u>**

10 x * = 5 marks

(5)

Question Number	Answer	Mark
4(c)	3 x *** for an evaluation of each ratio (* for comment * for forecast ratio * for development point) 1 x * for appropriate conclusion **Sample answer** Over the two years Tatiana's gross profit margin will decrease* from the current figure of 75% to 60%* due to the reduction in the selling price.* The net profit margin will also decrease* from 30% to 20%* due in part to the reduction in the gross profit and the increased cost of advertising.* The return on capital employed will fall* to 15%* as there is no increase in the net profit over this period* Overall her strategy will not* lead to an improvement in her profitability in the forthcoming year. **10 x * = 5 marks**	**(5)**

(Total 19 marks)

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>5</td><td>

Asia Plc
Balance Sheet
As at 31 July 2009

<table>
<tr><th></th><th>£000</th><th>£000</th><th>£000</th></tr>
<tr><td></td><td>Cost</td><td>Acc. Dep.</td><td>N.B.V.</td></tr>
<tr><td>Fixed assets</td><td>2 000*</td><td>700*</td><td>1 300</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Current assets</td><td></td><td></td><td></td></tr>
<tr><td>Stock</td><td>48*</td><td></td><td></td></tr>
<tr><td>Debtors</td><td>20*</td><td></td><td></td></tr>
<tr><td>Prepayments</td><td>12*</td><td></td><td></td></tr>
<tr><td></td><td></td><td>80</td><td></td></tr>
<tr><td>Current liabilities</td><td></td><td></td><td></td></tr>
<tr><td>Creditors</td><td>24*</td><td></td><td></td></tr>
<tr><td>Proposed dividends</td><td>25*</td><td></td><td></td></tr>
<tr><td>Accruals</td><td>20*</td><td></td><td></td></tr>
<tr><td>Bank</td><td>30*</td><td></td><td></td></tr>
<tr><td></td><td></td><td>99</td><td></td></tr>
<tr><td>Working capital/net current assets</td><td></td><td></td><td>(19)*</td></tr>
<tr><td></td><td></td><td></td><td>1 281</td></tr>
<tr><td>Long term liabilities</td><td></td><td></td><td></td></tr>
<tr><td>Bank loan</td><td></td><td></td><td>14*</td></tr>
<tr><td></td><td></td><td></td><td>1 267*</td></tr>
<tr><td>Financed by:</td><td></td><td></td><td></td></tr>
<tr><td>Share capital:</td><td></td><td></td><td></td></tr>
<tr><td>Ordinary shares @ £1 each</td><td>500*</td><td></td><td></td></tr>
<tr><td>8% Preference shares @ £1 each</td><td>100*</td><td></td><td></td></tr>
<tr><td></td><td></td><td>600</td><td></td></tr>
<tr><td>Reserves:</td><td></td><td></td><td></td></tr>
<tr><td>Share premium</td><td>50*</td><td></td><td></td></tr>
<tr><td>General reserve</td><td>85*</td><td></td><td></td></tr>
<tr><td>Profit and loss account</td><td>532*</td><td></td><td></td></tr>
<tr><td></td><td></td><td>667</td><td></td></tr>
<tr><td>Shareholder’s funds</td><td></td><td></td><td>1267*</td></tr>
</table>

18 x * = 9 marks
</td><td>(9)</td></tr>
</table>

(Total 9 marks)

Question Number	Answer	Mark
6(a)	**Capital income** Income which is derived from sources other than the sale of goods or services*. This is normally long term and may have to be repaid at some point in the future.* + * for a suitable example (owners capital, long term loans) **Capital expenditure** Expenditure on the purchase of fixed assets* or improvements to existing fixed assets. The expenditure will have a long term benefit to the business – i.e. more than one year* +* for a suitable example (motor vehicles, premises) **Revenue income** Income either from the sales of goods or services* or secondary sources of income such as rent received* or discount received. +* for a suitable example (sale of stock) **Revenue expenditure** Expenditure on the day to day running of the business.* The expenditure will have a short term effect on the business – i.e. less than one year* +* for a suitable example (payment of rent or wages) **12 * = 6 marks**	**(6)**

Question Number	Answer	Mark
6(b)	Using an appropriate example to illustrate your answer, explain the effects on the final accounts of a business if revenue and expenditure is incorrectly classified. ** for use of suitable example ** for correct effect on profit and loss account ** for correct effect on balance sheet **Sample answer** If a business purchases a motor vehicle for use in the business** and includes the figure in the motor expenses in the profit and loss account then the profit* would be understated* and the value of the fixed assets* on the balance sheet would also be understated*. **6 x * = 3 marks**	**(3)**

Question Number	Answer	Mark
6(c)	Explain how the accounting concept of materiality affects the treatment of capital and revenue expenditure items. ** for outline of materiality ** for a good example and explanation ** for identifying that the size of the business is relevant to the concept **Sample answer** This concept identifies that some items in accounts many have such a low monetary value that it is not worthwhile recording them separately; i.e. they are not 'material'.** For example** end of year stocks of paper clips, staples etc are not valued for the purpose of the final accounts because the amount is not material and does not justify the time and effort involved. These low cost items would be charged as an expense in the profit and loss account instead of being classed as capital expenditure. Materiality depends on the size of the business. A large company may consider items of less than £1000 as not material; a small company may consider a much lower figure** **6 x * = 3 marks**	**(3)**

(Total 12 marks)

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